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- Garg, Bhavet (2011): Towards a New Gas Policy, Political Weekly, Viewed on January 01, 2012 http://epw.in/user/viewabstract.jsp

AUDITING PROFESSION IN PERIL AS TIME IS RUNNING OUT: A LITERATURE REVIEW

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ABSTRACT

There is increasing demand on auditors by regulators, third parties, and user of their services in terms of their responsibilities and duties. This is based on the fact that the auditor's opinion is what furnishes investors with critical assurance that the financial statements have been subjected to a rigorous examination by an objective, impartial, skilful and professional persons and that investors, therefore, can rely on them. The potential consequences of recent challenges posed by changing times, and surging failures in the engagement of an auditor and how one can reduce the auditor's professional liabilities in accounting and auditing practice, form the core objectives of this research. It also examines why auditing is proving risky and expensive. Thus, through a desk study, this paper reveals that the job of an auditor is increasingly hazardous (in terms of auditor's liabilities) and challenging due to the dynamics of the contemporary business world and the auditor's growing involvement in consultancy which is swiftly eroding the auditor's independence. Hence, the work concludes that unless the profession, the regulators and users of the services of auditors come together to review the profession, it might be difficult to source competent auditors in future. On the strength of this, the work recommends that: the auditor needs to return to their core professional functions and reduce non-audit services to audit client as a way of avoiding the peril; audit fees should be reasonable especially to encourage small firms and reduce their intention to engage in non-audit services to audit clients; the auditor should get rid of high risk and difficult clients; and engagement leaders should never delegate their quality control responsibility.

KEYWORDS
auditor, engagement, independence, professional liability, regulators.

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1.1 INTRODUCTION

The objective of the ordinary audit of financial statement by the independent auditors is the expression of an opinion on the fairness with which they present fairly in all material respect, financial position, result of operations and cash-flows in conformity with generally accepted accounting principles (SAS 1; AU 110). Auditors accumulate evidence in other to reach conclusion about whether the financial statements are fairly stated and to determine the effectiveness of internal control, after which they issue the appropriate report.

As a general rule, audits should always be an independent evaluation that will include some degree of quantitative and qualitative analysis. This requires adequate assessment, independent and more consultative approach. The outcome of the assessment should relate to the norms that were set for the task, product or event. It is for this reason that there have been deep-rooted global concerns by members of the public and governments about the roles and liabilities of auditors in the auditing of the books of accounts of company's and corporations. The law as an instrument of social engineering continues to seek stronger statutory framework towards providing effective and efficient regulations; this has been basically through statutory provisions (Ihenyen, 2013).

Auditors of financial statement can be classified into two categories: External /Statuary Auditor and Internal Auditors (ICAN, 2019). External Auditor is an independent firm engaged by the client subject to the audit, to express an opinion on whether the company's financial statements are free of material misstatement due to fraud or error (Obiamaka, 2015). For publicly traded companies, external auditors may be required to express an opinion over the effectiveness of internal controls on financial reporting. External auditors may also be engaged to perform other agreed-upon procedures, related or unrelated to financial statements.

Most importantly, external auditors though engaged and paid by the company being audited, are regarded as independent auditors. This should be separated from internal auditing which can be described as an independent, objective assurance and consulting activity designed to add value and improve an organization's operation and internal control. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance process. (IPPF, 2011).

The appointment of auditors has been subjected to various legal requirements, few of which will be mentioned. For instance, in Nigeria all the regulators have requirements that are ancillary to those provided by the company and Allied Matters Act. Bank and other Financial Institution Act, 1991 in section 30 requires every bank to appoint annually, the approved auditor who shall make available to the shareholders reports of the annual Statement of Financial Position and the Statement of Profit or Loss and other Comprehensive Income of the bank and any other information as may be prescribed from time to time by the Central Bank (Ajayi, 1999).

1.2 OBJECTIVES OF THE STUDY

The objectives of the study are to examine:

1. The consequences of recent challenges posed by changing times, and surging failures in the engagement of an auditor.

2. How auditor's professional liabilities in accounting and auditing practice can be reduced.
3. Why auditing is proving risky and expensive in the contemporary business world.

1.3 RESEARCH METHODOLOGY

This paper is purely a literature review, hence the researcher carried out a desk study. Thus, the paper revealed through the various literatures, that the job of an auditor is increasingly hazardous (in terms of auditor's liabilities) and challenging due to the dynamics of the contemporary business world. The auditor's growing involvement in consultancy was also identified to have swiftly eroded the auditor's professional independence in recent times.

1.4 AUDITORS' RESPONSIBILITIES AS A PROFESSIONAL

The auditor is expected to plan his work with due diligence and bring his professional competence to bear on his job. This is important as his report may be relied upon by variety of individuals and organizations in investment decision-making (Otalor and Eiya, 2013).

If the auditors believe that the financial statements are not fairly presented or is unable to reach a conclusion because of insufficient evidence, the auditor has the responsibility of notifying users through the auditor's report (Alastair,2008). Subsequent to their issuance, if fact indicate that the financial statements were not fairly presented, the auditor will probably have to demonstrate to the court or regulatory agencies that he or she conducted the audit in a proper manner and drew reasonable conclusion.

The auditors may need to qualify his report as a warning to investors and other users of financial statements to which he attested. This is done to avoid liability to the users of the financial statements who may suffer financial loss then putting his name and the firm which he represents in peril.

This is the main activity of the external auditor, but conditions are changing. The happenings in the capital markets, home and abroad and business failures soon after a clean audit report has brought on the auditor and the auditing profession serious pressures and constraints that is currently jeopardizing the auditing profession.

2. LITERATURE REVIEW

2.1. EMPIRICAL REVIEW

The auditors have constantly found themselves at cross-purposes with the society. There are myriads of contravening circumstances surrounding the perceived roles and the nature of audit profession. The social expectations are that the auditors should play an effective role in reducing, if not eliminating, corruption(Otalor and Eiya, 2013). However, audit procedures may permit an auditor to carry out his confessional engagements without necessarily reviewing all the transactions and details of its clients to express an opinion. In the same vein, investors tend to rely greatly on the opinions of the auditor in their investment decisions. Similarly, some scholars and the investing community believe that the auditors' independence is eroded by engaging in non-audit services. If investors do not believe that an auditor is independent of a company, they will derive little confidence from the auditor's opinion and will be far less likely to invest in the public company's securities (SEC, 2001).

Okah, (2012), studied the relationship between non-audit services (NAS) and auditors' independence: evidence from earnings management perspective. The work was carried out to find out whether the provision of Non-Audit Services is associated with auditor's independence evidence from the earnings management perspective proxied by discretionary accruals. Data for this research were manually collected from the NASDAQ OMX website from the annual financial reports of 107 Swedish public listed firms in the Stockholm Stock Exchange. The selection of these companies was based on their capitalization, that is, Large, Medium and Small size firms. In the research, quantitative research method was adopted to explore the relationship between provision of NAS and auditor's independence with the help of statistical soft wares (SPSS and Excel) for data analysis. The findings of this study revealed that the amount of non-audit services rendered by a firm's external auditors is not associated with earnings management; therefore, the auditor's independence is not compromised for providing NAS to their clients. This work argues that the auditor's independence is strengthened during the provision of non-audit services thus there is a positive correlation between auditors' independence and NAS.

Gwilliam, Marnet & Tan. (2014), reviewed audit quality and joint provision of audit and non-audit services. This work opines that in external company audit, although the responsibility for appointment of the auditor may ultimately lie with the shareholders, effective power of appointment and dismissal has for many years been the prerogative of executive management. The work added that the increasing importance of audit committees within the corporate governance framework has, to an extent, moderated this power, but the relationship between the auditor and executive management is still of key importance in the great majority of audits. Hence, the findings suggest that if auditors are economically dependent upon executive management, then there will be incentives for the auditor not to report appropriately on company financial statements if they consider that the provision of an adverse opinion is likely to result in the loss of the audit engagement and associated non-audit services.

Tepalagul and Lin (2015), carried out a comprehensive review of auditor independence and audit quality. The literature review was conducted based on published articles during the period 1976-2013 in nine leading journals related to auditing. The study was anchored on four major threats to auditor's independence, namely, (a) client importance, (b) non-audit services, (c) auditor tenure, and (d) client affiliation with audit firms. Hence, the review concluded that the mixed evidence, together with recent regulatory changes, provides opportunities for future research on auditor independence and audit quality.

Zang, Hay, & Holm, (2016), investigated the relationship between non-audit services and auditor independence in Norway. They examined the effect of auditors providing non-audit services on the independence of auditors in the Norwegian audit market. The research results indicated three tests of independence of mind and one test of independence in appearance. The tests revealed that there is a positive relationship between audit fees and non-audit fees, which does not suggest loss of independence. Further test using two-stage least squares also revealed that audit and non-audit fees are jointly determined, and the results are still not consistent with loss of independence. Thus, the paper concluded that there is no relationship between the provision of non-audit services and the frequency with which auditors issue modified audit opinions; that there is no association between non-audit services and audit tenure: there is no evidence of loss of independence of mind or loss of independence of appearance as a result of providing non-audit services.

Chukwunedu, Okafor, & Okoye (2017), studied the perception of stakeholders on the effect of the provision of non -auditing services by an auditor to his audit client on audit quality. The paper adopted a survey research design, sampled 400 respondents and used a five point Likert scale questionnaire to obtain data for the study. Descriptive statistics and the t-test statistic were employed for data analysis and testing the hypothesis for statistical significance. The research concluded that the provision of non-auditing services to audit clients such as doing book-keeping work for a client and the provision of internal audit services, impair audit quality.

Khasharmeh and Desoky (2018), carried out an empirical study of the perceptions of respondents (auditors, accountants and financial managers) on the effect of the provision of non-audit services (NAS) to audit client's companies on auditors' independence and audit quality. The study sampled 250 respondents in Bahrain and analysed the data using Kruskal-Wallis Test. The results assert that the independence of auditor is impaired by providing non-audit service.

Ernstberger, Koch, Schreiber, & Trompeter (2019) investigated whether audit firms' compensation policies are associated with audit quality? The researchers specifically explored the effects of the ratio of variable to fixed compensation and the size of the basis for profit sharing (that is, whether partners share profits in a small or in a large profit pool) using detailed mandatory disclosure of the compensation policies in German audit firms. The findings indicated that compensation policies vary considerably across audit firms; profit sharing in a small profit pool and high variable compensation are two characteristics of auditor compensation associated with lower audit quality; audit quality may be most at risk in cases in which partners rely more heavily on variable compensation to divide a relatively small profit pool; and that these associations are more pronounced in medium-sized audit firms.

This paper therefore borrowed a leaf from the work of Tepalagul and Lin (2015), that reviewed published articles during the period 1976-2013 in nine leading journals related to auditing.The study was carried out in the USA. However,this paper is a comprehensive longitudinal literature review of some scholarly published articles in reputable journals for the period of 2010 - 2019 with emphasis on Nigeria auditing guideline.

2.2. CONCEPTUAL REVIEW

The auditor as a professional is dependent on his skill and professional competence for livelihood. However, where audit fee keep dwindling and other accounting services are available for the auditor, he might take up such opportunity. This is because low-balling sends a message inside the audit firm as well. According to Hills (2000), the shift in a firm's emphasis away from auditing and toward non-audit services causes, over time, a cultural shift within the firm. The factors that drive a high quality audit, including the core values of the auditing profession, may diminish in importance to the firm, as will the influence of those firm members who exemplified those core values in their own professional career (Hills, 2000). Interestingly, auditing firms do not describe themselves as auditors but rather they prefer to be described as chartered accountants or audit firm. Due to the auditor's intimate knowledge of the internal operations of companies and some other business organization, the auditor acting in his capacity as a trained accountant, may be called upon to perform a range of services and expertise other than auditing to existing and prospective clients' (Olowookere, 2001).

Similarly, Johnson (2000) opines that the evolution of the auditing profession into multi-service professional firm has given rise to reasonable concerns that the integrity of financial data may be adversely affected. For this reason, also, the markets may become suspicious and impose an additional risk premium. As a result, clients, as well as regulators are taking steps to reduce the impact of the consequences of auditors losing their independence to non-audit services thus making auditing an unattractive profession to the upcoming generation due to stringent conditions and poor remunerations.

The peril of auditors started in the late eighties and early nineties with the big accounting firms in US and Europe. Both Coopers and Lybrand and Price Waterhouse gradually increased their emphasis in consulting in the 1990s. Auditing was proving risky and expensive, as the Big Six Accounting firms were liable for the failure of companies they audited and subjected to paying huge settlements.

2.3. LEGAL REVIEW

In 1992 Coopers and Lybrand settled a suit brought against it by the investors of Miniscribe, a disk-drive maker, that went bankrupt. These investors claimed that they would have caught the company's fraud if the audit report was not misleading. Coopers and Lybrand eventually agreed to pay investors $92 million for its negligence (Bakre, 2007) In another fraud related case, the firm made large payments in 1996 to settle claim regarding failed companies in the media empire of the deceased Robert Maxwell. The accounting firm was fined by regulators in 1999 for their failure to detect Maxwell's fraudulent transfer of $650 million from a company pension fund to himself. Among other payments were Coopers and Lybrand's expensive settlements related to their auditing of Pha-Mor Pharmacies, bankrupt in the mid-1990s (OECD, 2012).

Price water house coopers had their own legal trouble in the 1990s, a protracted battle over the company's audit of Bank of Credit and Commerce International. This ended in 1995 with a payment of $200 million, significantly less than $11 billion sought by the creditors of the collapsed bank. In addition to hefty settlements, the suits led to soaring insurance cost for the accounting firm. By the mid-1990s many insurance companies refused to even cover the auditing practices of the Big Six Firms, forcing Coopers & Lybrand and Price Waterhouse to set aside money to cover themselves (Price Water house Coopers, 2012).

This trend of scandals amongst the accounting firms escalated and was deepened by the inability of the accounting firms to uncover misleading financial information in companies' accounts. For instance, with the cross border free movement of money made possible by globalisation and the professional services of accountants, Nigeria loses an estimated US$15 billion annually to illicit financial outflows and money laundering (Global Financial Integrity Report, 2011). Similarly, this is evidenced in UK by the case of Maxwell Communications Corporation and Polly Peck International; more recently in Enron and Worldcom in the US and Parmalat in Italy (ICAN, 2014). Enron filed for bankruptcy in 2001 after adjusting its accounts. In like manner, Worldcom which collapsed in 2002 admitted to a fraud in its accounting and its Chief Executive officer was subsequently convicted and jailed.

Article IV of the AICAP'S code of professional conduct provides that objectivity is a state of mind, a quality that lends value to a member's services. It is a distinguishing feature of the profession. The principle of objectivity imposes the obligation to be impartial, intellectually honest, and free of conflicts of interest on the auditors. Independence precludes relationship that may appear to impair a member's objectivity in rendering attestation services.

In contrast, the auditors of nowadays are perceived not to be complying with this level of independence as specified in this American code of professional conduct. Companies themselves are faced with all manner of recessions that many of them are engaging auditors in acts that compromise their objectivity (Competition Commission, 2013). Periods of economic uncertainty lead to challenging conditions for companies due to potential deterioration of operating results, increased external scrutiny, and reduced access to capital.

These conditions cause companies to adopt practices that may be incorrect or inconsistently applied in an effort to address perceived expectations of the capital markets, creditors or potential investors. Amidst this mayhem, the degree of diligence, honesty and independence exercised by the auditors, who may have been paid millions of money to give opinions on company financial statements, becomes questionable. Sadly, companies are sinking within weeks of getting a clean bill of health. No wonder therefore, in September 2010, Central Bank of Nigeria gave all Deposit Money Banks (DMBs) up to December 31, 2010 to replace external auditors that have been appointed for more than 10 years including years spent with constitute legacy banks in compliance with the provisions of paragraph 8.2.3 of the CBN code of corporate governance for banks, which stipulates that ''the tenure of the auditors in a given bank shall be for a maximum period of ten years which, the audit firm shall not be reappointed in the bank until after a period of another ten years.'' This no doubt affected some audit firm's income as they automatically lost the income derived from these banks suddenly without any fault of theirs. However, whether such directive will ensure a clean bill of healthy audit report is still a puzzle.

According to Mukoro (2012) auditing is not intended to write a clean bill of health or otherwise for an entity. The fundamental misconceptions about audit is that users wrongly believe that a clean audit report indicates that an entity has made an effective use of its resources, and has adequate resources to continue in business and maintain a reliable system of internal control. Where the auditor is negligent in the performance of his duties as decided in some court cases, a test of reasonable care may be performed. The liability of accountants and auditors depends upon a qualified test of 'reasonable foresight'. Professional practice today is like walking through a minefield, and each new act or case decided produces a fresh set of detonators. We therefore do well to keep a steady nerve and remember at all times that the judgement of reasonableness is fundamental to the work of an auditor.

To enhance the auditor's reasonableness, professional skepticism should be heightened and the status quo challenged. ISA 240 p24 states that the auditors should maintain an attitude of professional skepticism throughout the audit. Professional skepticism is an attitude that includes a questioning mind and a critical assessment of audit evidence. Professional skepticism requires an ongoing questioning of whether the information and the audit evidence obtained suggest that a material misstatement may exist. Although the auditor neither assumes that management is dishonest nor assumes unquestioned honesty, the auditor should consider the increased risk associated with the potential increases in external pressure faced by management in times of economic decline. (Asa, 2009).

3. CONCLUSION AND RECOMMENDATIONS

A correct understanding of the role and status of the audit profession today, including the expectations placed upon it by the public, requires an appraisal of the changes which have led to the present neurosis concerning liability. Not all of these developments are of auditors' making: any legislation designed for example, to curb the profligacy, financial recklessness or worse, downright malpractice of company/organizations' executives, inevitably has a powerful spin-off for auditors, by reposing in them the ultimate responsibility (and hence potential liability) for ensuring implementation. However, this is not only scary but a disincentive to upcoming professional accountants who may desire to practice auditing.

This paper considered to some extent, the challenges faced by auditor in the current age, how involvement in consultancy has eroded their independence, and the growing cases of auditor's liability worldwide. In view of the above circumstances, it is recommended that the auditors need to return to their core professional functions and reduce non-audit services to audit clients as a way of avoiding the peril. Similarly, audit fees should be reasonable especially for small firms to encourage practice and reduce intention to engage in non-audit services to audit-clients; the auditor should get rid of high risk and difficult clients; and engagement leaders should never delegate their quality control responsibility.

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